

State of Rhode Island Office of the Health Insurance Commissioner Hospital Contracting Conditions Standard Background for May 17, 2012 Public Input Meeting

Introduction

In 2009, at the advice of its Health Insurance Advisory Council, the State of Rhode Island Office of the Health Insurance Commissioner (OHIC) directed commercial health insurance issuers with significant market shares in the state to comply with a set of four criteria, collectively termed the Affordability Standards, aimed at improving the affordability of health care in Rhode Island. Specifically, the Affordability Standards required issuers to:

1. Expand and improve primary care infrastructure
2. Spread the adoption of the patient-centered medical home
3. Standardize electronic medical record incentives
4. Work toward comprehensive payment reform across the delivery system

The Affordability Standards went into effect in 2010. Since that time, there has been significant interest in OHIC's work in this area—at both the state and national level—because the Affordability Standards represent an innovative policy experiment to attempt to improve health care affordability by promoting delivery system reform from the insurance side.

To support standard four, in July 2010 as part of its rate review decisions, OHIC issued six conditions for issuer contracts with hospitals in Rhode Island (commonly known as the “hospital contracting conditions standard”) to be implemented by issuers upon contract execution, renewal, or extension. These are as follows:

1. **Units of Service:** Utilize unit of service payment methodologies for both inpatient and hospital outpatient services that realign payment to provide incentives for efficient use of health services, and are derived from nationally utilized payment practices other than fee-for-service
2. **Rate of Increase:** Limit average annual effective rates of price increase for both inpatient and outpatient services to a weighted amount equal to or less than the Centers for Medicare and Medicaid Services National Prospective Payment System Hospital Input Price Index for all contractual and optional years covered by the contract
3. **Quality Incentives:** Provide the opportunity for hospitals to increase their total annual revenue for commercially insured enrollment under the contract by at least additional two percentage points over the previous contract year by improving or attaining mutually agreed-to performance levels for no less than three nationally-accepted clinical quality, service quality or efficiency-based measures

- 4. Administrative Simplification:** Include terms that define the parties' mutual obligations for greater administrative efficiencies
- 5. Care Coordination:** Include terms that promote and measure improved clinical communications between the hospital and each patient/member's designated primary care physician, specialist physicians, long term care facility, or other providers
- 6. Transparency:** Include terms that explicitly relinquish the right of either party to contest the public release of the any and all of these five specific terms by state officials or the participating parties to the agreement

In the 2011 rate review process, OHIC did not change the conditions. As part of the 2012 rate review process, OHIC is seeking feedback from stakeholders, through a public input meeting, on potential changes to these conditions in order to gain a better understanding of the overall views of stakeholders regarding them and how they might be refined in the future.

Evidence of Compliance and Policy Effects: A Summary

OHIC assesses compliance with the conditions through its annual small and large employer group rate factor review process. With the 2012 rate review process currently underway (which determines rates for 2013), the evidence collected as part of the 2011 rate review process remains the most recent information available with which to assess issuer compliance (a more detailed discussion of this evidence is available at the following address on OHIC's website: <http://www.ohic.ri.gov/documents/Insurers/Reports/2011%20Affordability%20Standards%20Assessment/2011%20Affordability%20Standards%20Assessment.pdf>).

Evidence collected in 2011 suggests that issuers have largely complied with the conditions and that the condition's implementation has generally produced the following changes to issuer contracts with hospitals in Rhode Island:

- Units of service have been moved from per diems to efficiency-based services.
- Price increases have been limited.
- The use of quality incentives has been increased.
- Some collaborative efforts to improve administrative efficiency and care coordination have been initiated.
- Transparency and accountability for contracting activity were significantly increased.

In short, the conditions appear to have been effective at fostering some initial promising steps on the part of issuers and hospitals. However, it also remains clear that in order for these tentative first steps toward a more efficient health care delivery system to significantly contribute to improving the affordability of health care in the Rhode Island, issuers and providers will need to commit to making more dramatic progress toward comprehensive delivery system reform facilitated in part by changes in how hospitals get paid.

Moving Forward: Key Questions

In order to ensure that the conditions are as effective as possible and that the state is able to build on its initial success, OHIC believes that hearing from stakeholders on three questions related to the conditions is essential. With a goal of improving the quality, accessibility, and affordability of Rhode Island's health care system, these questions are:

- What is your overall assessment of the hospital contracting conditions standard to date?
- To what extent, if any, should the conditions be revised to align more closely with changes to the way in which Medicare pays hospitals?
- Do you have recommendations for other changes in the conditions?

The first and third questions are broad in nature and are meant to prompt stakeholders to provide as wide a range of feedback about the implementation, monitoring, evaluation, and revision of the conditions.

The second question is narrower and is raised to foster a discussion of whether or not the various changes to the way Medicare pays hospitals—being implemented as a result of the Affordable Care Act—should cause OHIC to consider revising the conditions to align with these changes more uniformly. Such changes include, for example, the Hospital Value-Based Purchasing Program (which will reward hospitals with incentive payments for the quality of care provided), the Hospital Readmissions Reduction Program (which will reduce payments to hospitals with excess readmissions), and imposing payment penalties on the 25 percent of hospitals whose rates of hospital acquired conditions are the highest. OHIC believes that the opportunity to encourage alignment across payers in payment reform initiatives makes this a particularly important question.

OHIC welcomes public comment on the conditions in response to the three questions posed above as well as any other comments that members of the public wish to offer. It is OHIC's intention to use the comments resulting from the public input meeting to inform its deliberations around the continued implementation and potential revision of the conditions. Interested members of the public are encouraged to provide their input.

Notes

- The public input meeting will be held on May 17, 2012 from 4:30 P.M. to 6:00 P.M. at the State of Rhode Island Department of Labor and Training, 1511 Pontiac Avenue, Building 73-1, Cranston, RI 02920-4407.
- Public comment will be taken in order of sign-up at the meeting.
- In addition to or in lieu of oral comment, the public is invited to submit written comments for consideration to healthinsinquiry@ohic.ri.gov.
- Please contact Nicole Renzulli at (401) 462-9639 or nicole.renzulli@ohic.ri.gov to arrange for special accommodations or for more information.